

# Fairfax County Economic Index

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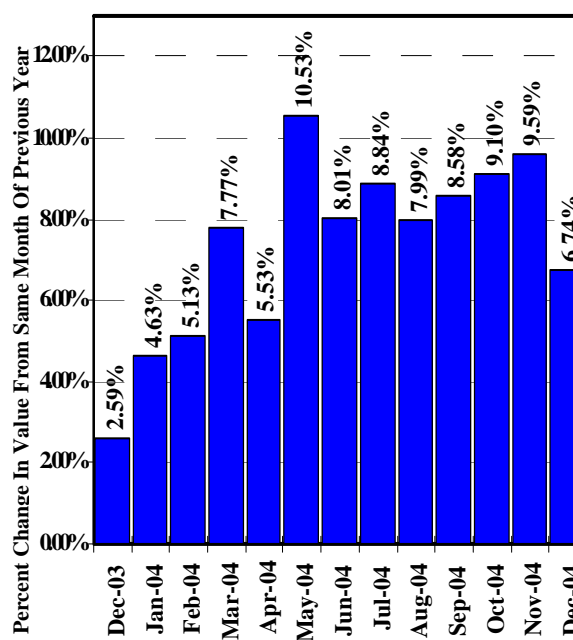
February 2005

## Economy Slows In December After Registering Strong for the Year

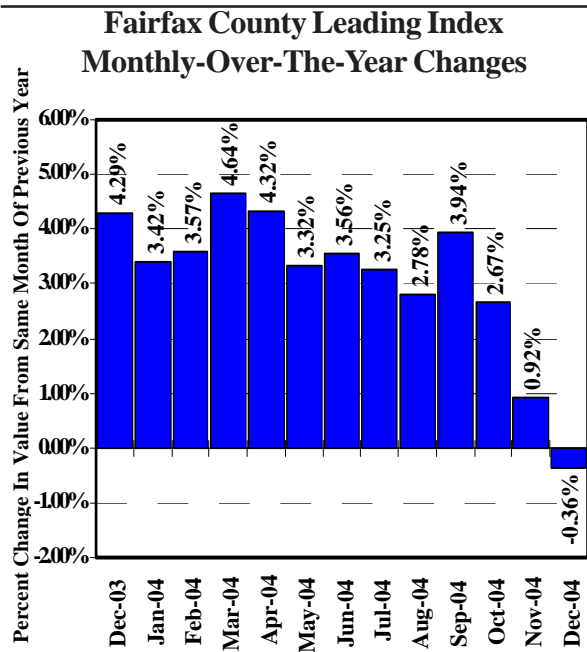
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 141.04 in December for a loss of 0.39 percent. This decrease follows a larger decline in November. Still, the Index continues to trend up having gained 6.7 percent for the year and, on a monthly over-the-year basis, the Index has now been positive for fifteen consecutive months. In December, two of the Index's four components were negative, one was unchanged from November, and one increased.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for a second month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, fell for a second month; while,
- Total employment was unchanged for a second month after registering gains for twenty consecutive months; and,
- Consumer confidence (in the present) increased for the third time in four months.

**Fairfax County Coincident Index  
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



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The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 106.3 in December for a loss of 0.16 percent. The Leading Index has now decreased in three of the last five months and although these losses have been consistent, they have flattened the twelve-month moving trend line. On a monthly over-the-year basis, the Leading Index was also lower (0.36%) in December after having registered nineteen consecutive monthly increases dating from May 2003. While the economy's upward trend is clearly visible in the track of its 12-month moving average line that steadily increased over the past year and now exceeds its previous historic high set in November 2000, the growth of the Leading Index has clearly paused. In December, the negative performance of three of the Index's five components was responsible for its decline.

- New residential building permits fell for a second month;
- The total value of residential building permits also declined for a second month; and,
- Initial claims for unemployment insurance increased (worsened) for the second time in three months; while,

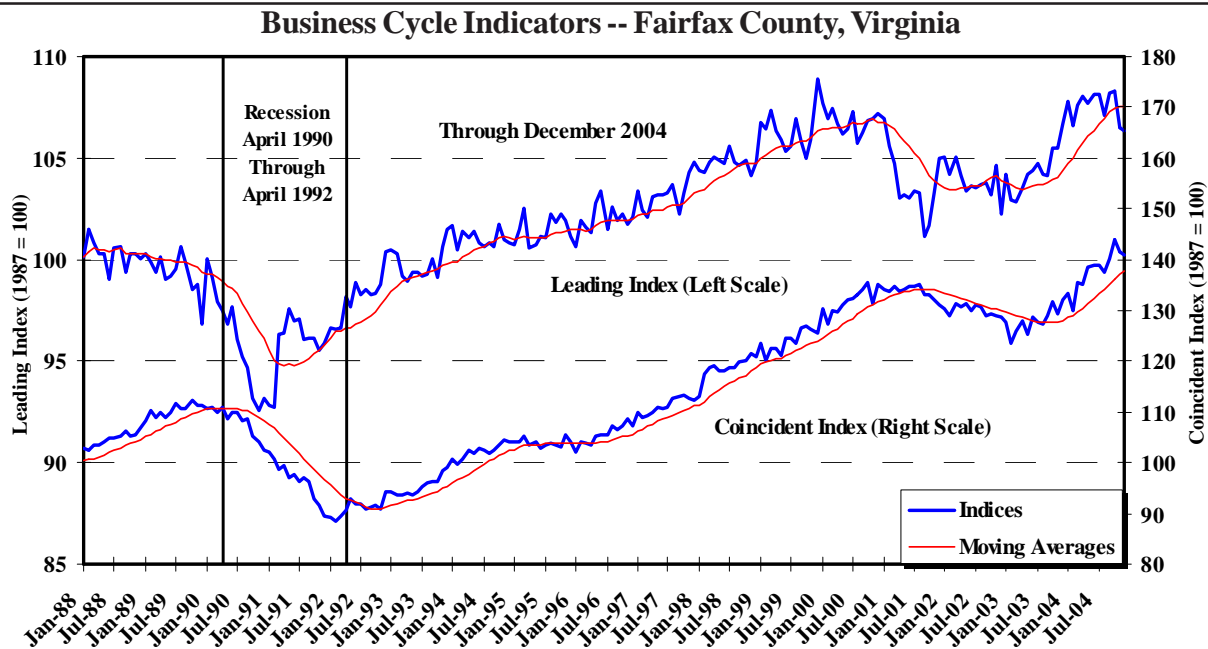
- Consumer expectations (consumer confidence six months hence) increased in December for the third time in four months; and,
- New automobile sales rebounded after two monthly declines.

The Fairfax County economy cooled down at the end of 2004 with its performance in both November and December reflecting a mix of slower growth and decreases across most indicators. However, for the year, the total output of the County's economy is projected to have expanded by 5.75 percent (inflation adjusted) for a gain of \$4 billion, with this gain generating in excess of 25,000 net new jobs. These gains have far exceeded growth rates at the regional and national levels. While the County's year-end economic performance contrasts with the gains experienced in the national and Washington metropolitan area economies in December, it is likely that these economies are still lagging Fairfax County's growth track and that the County's economy will re-accelerate in 2005 and will again outperform the regional and national economies over the course of the year.

## CURRENT CONDITIONS

If the performance of the County's economy in November and December were assessed independently of the gains achieved for the full year, they would be pointing to slower future growth, possibly even a downward trend in the economy in coming months. However, in the context of the County's strong economic performance over the full year, this year-end slowdown should be interpreted as a pause or plateau in the business cycle to allow the economy's driving forces time to absorb the gains achieved before reaccelerating during 2005.

The two principal forces driving the economy's growth are employment expansion and increased consumer spending. While final annual average data for 2004 will not be available for either of these measures until March, estimates suggest that gains in 2004 were among the strongest ever even when compared to the boom years of the late 1990's. Total employment gains in Fairfax County, counting only full-time, year-round jobs, are estimated to exceed 25,000; that is more than a 4.2 percent annual



Source: Center for Regional Analysis, George Mason University

growth rate. With annual job gains for the Washington region estimated at 2.75 percent, or 70,800 new jobs (this number will be revised in March), Fairfax County's job gains accounted for more than 35 percent of the region's gain, a far greater proportional share than the County's 20 percent share of the region's population base. It should be noted that the Washington area's job growth was the greatest among all metropolitan areas; it exceeded the second largest area of growth by 50 percent. Job growth in the region, and more specifically in Fairfax County, in 2004 was the greatest since 2000.

This strong job growth has generated and will continue to generate strong income gains in the County that will continue to support steady growth in consumer spending. Stronger consumer spending also will be supported by slowly increasing consumer confidence. While consumer confidence has been slow to regain its pre-September 11, 2001 levels, confidence in the present ended the year up 27 percent from December 2003 while expectations were slightly lower (-0.5%). Expectations should move higher in 2005 as the economy's demonstrated strength in 2004 becomes more widely accepted and understood. And, as consumer confidence builds, consumer spending should increase. The County's measures of consumer spending did not exhibit gains during 2004 equivalent to the economy's capacity for growth as

measured by gains in jobs and income. Consequently, there remains an unrealized consumer spending potential that is likely to grow in 2005 and should be reflected in increased retail spending.

## NEAR-TERM OUTLOOK

The Fairfax County economy is projected to grow 5.2 percent in 2005, a slight moderation from its gain in 2004. However, as job growth lags the growth of output, job gains in 2005 are projected to exceed gains in 2004. Together, both 2004 and 2005 should be viewed as being the strongest two years for the County's economy for the decade with growth trends moderating going forward. The expected growth pattern in 2005 points to gains being stronger in the first half of the year than in the second half with normal seasonal unevenness over the summer and winter months.

With the County's economy generating more than 25,000 new jobs for a second year, demand pressures on the County's housing stock will remain strong. As a result, the housing price pressures experienced over the last three years are expected to continue with only slight moderation reflecting slowly increasing interest rates during 2005 and continuing through 2006.

## Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-04 Prelim.	Nov-04 Final	Dec-03 Final	Nov-04 to Dec-04	Dec-03 to Dec-04
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1987 = 100)	141.04	141.59	132.13	-0.39	6.74
Leading Index (1987 = 100)	106.30	106.47	106.69	-0.16	-0.36
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	642,626	642,656	616,674	0.00	4.21
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	<i>652,548</i>	<i>647,039</i>	<i>626,195</i>	<i>0.85</i>	<i>4.21</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	698	718	593	-2.79	17.84
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,329</i>	<i>1,339</i>	<i>1,089</i>	<i>-0.70</i>	<i>22.03</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,156	9,470	9,041	-3.32	1.26
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>16,783</i>	<i>12,396</i>	<i>16,231</i>	<i>35.39</i>	<i>3.40</i>
South Atlantic Consumer Confidence	136.5	129.3	107.3	5.57	27.21
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	6,824	5,810	7,139	17.45	-4.41
<i>Automobile Registrations (Unadjusted)</i>	<i>5,944</i>	<i>6,218</i>	<i>6,218</i>	<i>-4.41</i>	<i>-4.41</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,111	1,029	1,507	7.96	-26.33
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,083</i>	<i>926</i>	<i>1,470</i>	<i>16.95</i>	<i>-26.33</i>
South Atlantic Consumer Expectations (Unadjusted)	104.9	100.3	105.4	4.59	-0.47
Residential Building Permits (Number of Units, Seasonally Adjusted)	443	575	570	-22.93	-22.26
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>326</i>	<i>423</i>	<i>431</i>	<i>-22.93</i>	<i>-24.36</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	14,466	17,102	39,343	-15.41	-63.23
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>20,496</i>	<i>24,277</i>	<i>53,826</i>	<i>-15.57</i>	<i>-61.92</i>
<b>Fairfax County Labor Force (Rebenchmarked)</b>					
Total Labor Force (Seasonally Adjusted)	588,565	591,448	572,604	-0.49	2.79
<i>Total Labor Force (Unadjusted)</i>	<i>584,880</i>	<i>587,462</i>	<i>569,019</i>	<i>-0.44</i>	<i>2.79</i>
Employed Labor Force (Seasonally Adjusted)	578,085	580,698	559,805	-0.45	3.27
<i>Employed Labor Force (Unadjusted)</i>	<i>575,620</i>	<i>577,386</i>	<i>557,418</i>	<i>-0.31</i>	<i>3.27</i>
Unemployed Labor Force (Seasonally Adjusted)	10,480	10,751	12,799	-2.52	-18.12
<i>Unemployed Labor Force (Unadjusted)</i>	<i>9,260</i>	<i>10,076</i>	<i>11,601</i>	<i>-8.10</i>	<i>-20.18</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.78	1.82	2.24	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.58</i>	<i>1.72</i>	<i>2.04</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

Prepared by: Center for Regional Analysis George Mason University <a href="http://cra.gmu.edu">http://cra.gmu.edu</a>	Inquiries should be directed to:  The Fairfax County Department of Management and Budget 12000 Government Center Parkway, Suite 561 Fairfax, Virginia 22035-0074  (703) 324-2391 or 1-800-828-1120 (TDY)
We are on the web at: <a href="http://www.co.fairfax.va.us/comm/economic/economic.htm">www.co.fairfax.va.us/comm/economic/economic.htm</a>	